

Federal Reserve System Docket No. OP - 1557
Proposed Guidelines for Evaluating Joint Account Requests
Request for Comments

INTRODUCTION

BNY Mellon was founded in 1784, soon after the birth of the American republic. The company's history is inextricably woven into the broader history of the nation. Our company was the first corporate stock to be traded in 1792 when the New York Stock Exchange was formed, indelibly linking our history to that of the world's capital markets. The company was also the first financial institution to issue debt to the United States Government.

Today, BNY Mellon delivers informed investment management and investment services to institutions, corporations and individual investors and has \$26.3 trillion in assets under custody and/or administration and \$1.4 trillion in assets under management.

Being a part of shaping the future of the U.S. payments industry is important to BNY Mellon as is evidenced by our participation across several industry work groups including the Federal Reserve's Faster Payments Task Force and Secure Payments Task Force as well as The Clearing House's Real-Time Payments initiative. As such, we provide the following comments to the Federal Reserve's Request for Comments on Docket No. OP - 1557 for the proposed guidelines for evaluating joint account requests.

COMMENTARY

In general, BNY Mellon agrees with and supports the use of joint accounts at the Federal Reserve in order to support the clearing and settlement of payment systems among U.S. Financial Institutions such as CHIPS, UPIC and The Clearing House's new Real-Time Payments initiative. We believe this model provides the necessary speed of settlement and reduction in credit risk among its participants that is necessary for our country's payment networks. In regards to the proposed guidelines to evaluate further requests for joint accounts, we have the following comments:

- 1) **Each joint account holder must meet all applicable legal requirements to have a Federal Reserve account, and the Reserve Bank will not have any obligation to any non-account holder with respect to the funds in the account.**

BNY Mellon agrees with this requirement when evaluating joint account requests. This stipulation is consistent with existing policies of account opening and ownership and should remain for joint account requests.

- 2) **The private-sector arrangement must demonstrate that it has a sound legal and operational basis for its payment system.**

BNY Mellon supports the requirement to have an effective legal framework governing a proposed new payments network that utilizes a joint account at the Federal Reserve. We believe that the Operating Rules of a payments network must clearly state and effectively govern the rights, obligations and liabilities of all key participants as well as illustrate its compliance with the respective state and federal regulations in which it operates. Effective

policies and procedures should be clearly stated as part of the framework which provides a platform for risk management amongst its participants as well as limiting the exposure to the greater payments network and financial system.

- 3) **The design and rules of a private-sector arrangement must be consistent with the Federal Reserve's policy objectives to promote safe, efficient, and accessible payment system for U.S. dollar transactions and be consistent with the intended use of the arrangement.**

As the Federal Reserve has laid out in their Strategies for Improving the U.S. Payment System, the goals of existing and future payment networks should align the objectives of a safe, efficient and accessible payment system. As payment networks continue to emerge and request the utilization of a joint account to facilitate settlement, the balance of these objectives must be weighed and visible through design, regulation and operating rules and procedures.

- 4) **Provision of a joint account must not create undue credit, settlement, or other risks to the Reserve Banks.**

BNY Mellon agrees with this requirement as this is consistent with the due diligence currently in place. Joint accounts should not be approved for any financially unsound agents or operators. There should be a clearly defined review for the determination of such a decision. As the utilization of a joint account provides the speed and availability of a "good funds" model such as was developed by The Clearing House for Real-Time Payments, any other participants must demonstrate their controls and settlement rules that avoid credit risk to any and all of its participants. We further emphasize the need for contingency processing capabilities of such owners, participants and operators that are critical to conduct the settlement of the networks relying on the joint account for settlement.

- 5) **Provision of a joint account must not create undue risk to the overall payment system.**

The liquidity needs of a participating financial institution taking part in such a joint account should be evaluated at the time of request for the joint account. If a "good funds" model exists within the activity of a joint account, the design of the network and its liquidity requirements should not systematically affect a participant in a negative way in such that the participant is not able to meet its further obligations.

- 6) **Provision of a joint account must not adversely affect monetary policy operations.**

The design of a payment network utilizing a joint account may adversely affect monetary policies if the fluctuation of their balances affects their reserve positions. We recommend that the Federal Reserve review and monitor the volatility of the joint account owners and participants and reserve the right to limit to impose rules and/or requirements to limit such volatility.

SUMMARY

We agree with the Federal Reserve's proposals to evaluate joint account requests. We further emphasize the importance and need of such due diligence within this process to ensure the future growth and adoption of new payment networks in a secure and accessible market while controlling the overall risk and volatility of payments and liquidity amongst its members.

We appreciate the opportunity to participate in this process and we are available for discussion of our comments in more detail.

Respectfully Submitted By:

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